BANQUE DE FRANCE
EUROSYSTÈME

Hearing of François Villeroy de Galhau, Governor of the Banque de France before the National Assembly Foreign Affairs Committee

A mobilising deadline for seizing "Europe's moment"

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Mr President, Honourable Members

Thank you for inviting me to appear before the Foreign Affairs Committee of our National Assembly today. This is an extraordinary event, and even a first – although I do often speak before the Finance Committee. I would like to extend my sincere thanks to your President for this opportunity. It also reflects the new era we are entering, marked by the shift in American policy, global unpredictability and, I believe, "expectations of Europe". These fractures are as significant in economic terms as they are in diplomatic terms; I will naturally focus on the former. However, I would like to dispel one common misconception right away: economic and financial reform is not merely technical in nature; it also has an essential political sovereignty dimension (I). I would then like to address another concern: economic Europe is not condemned to remain stuck in its past inertia; it can and must seize this unique opportunity (II).

<u>I) Economic and financial Europe: a political rather than a technical undertaking.</u>

1.1. The European challenge: transforming our economic and financial strengths into sovereignty

France and Europe's challenge in terms of power in 2025 is clearly defence related, but it is just as much about the economy. We cannot move forward sustainably with the former without achieving the latter. Europe certainly has economic strengths, but we neither have enough awareness nor enough confidence in these. Our single market is as big as that of the United States in terms of purchasing power parity (EUR 17.9 trillion for the European Union compared with EUR 18.4 trillion for the United States in 2024[i]). The European Union has an abundant resource: private financial savings that are increasing every year, representing a flow of EUR 1,085 billion (6% of GDP) last year[ii]. We have a highly skilled workforce – our continent has produced more than 500 Nobel Prize winners – a firmly established rule of law and a shared social model. While the United States is unfortunately turning inwards and relinquishing its global leadership role, the European Union is expected to act as a possible stabilising force by our international partners.

But today we must transform these strengths into power. Our single market is much less attractive than the US market, particularly for innovative companies, as it remains far too fragmented. Our financial savings surplus, although considerable (over EUR 400 billion last year[iii]), is partly intermediated by US finance and insufficiently channelled into European corporate equity financing[iv]. Transatlantic mobility remains highly imbalanced in the field of research: nearly 120,000 European researchers currently work in the United States. As a result, Europe is lagging behind in the area of technology: too much private investment is flowing into existing sectors and not enough into innovative sectors. This is the 'middle technology trap' described by Jean Tirole, among others.[v] France has long been the leading and rightful advocate of this necessary European economic sovereignty, but it must now, unfortunately, restore its fiscal credibility if it wants to bring its partners fully on board. Ultimately, France must reduce its deficits and debt in order to regain influence in Europe.

1.2 Europe has nevertheless managed to achieve trade and monetary sovereignty

However, there are two areas where Europe, thanks to its unity, has managed to achieve sovereignty: trading power and monetary sovereignty.

The European Union is now the world's largest trading power,[vi] and it speaks with one voice through the Commission. The US protectionist measures are a 'lose-lose' game, but one in which the initiator will pay the highest price:[vii] growth in the United States this year will be lower than was forecast in January, with higher inflation. The 'agreements' announced in the last few days with the UK and then China, while less harsh than the brutal measures of 2 April, are not good agreements: there are still too many penalising tariffs – including the unprecedented baseline tariff of 10%! – and, above all, there is still just as much vagueness and unpredictability, which is fuelling a wait-and-see attitude. Europeans have so far managed to remain calm and united: it is right to have tabled retaliatory measures, but they should be phased in gradually to allow for negotiations and hopefully de-escalation. Furthermore, Europe has every interest in forging trade alliances with a maximum number of other partners,

from Latin America (including Mercosur) to Asia, provided such agreements are balanced.
More than 25 years ago, we succeeded in building monetary sovereignty through the creation of the euro. It took political will and a method that mobilised all stakeholders. Recognised worldwide, it now gives us the autonomy we need in the face of America's volatility. Remember how greatly our monetary policy decisions were influenced by US dollar policy in the 1980s and 1990s? Today, they are entirely our own.

Despite a highly uncertain international environment, the monetary situation in the euro area is now clearer. For the first time in several years, we have returned to what could be termed the "2-2" zone: inflation close to 2%, our target, and a key interest rate of 2.25%, well below the US[viii] and UK[ix] rates of 4.25%. This success consolidates the historically high level of support among French and European citizens for the single currency, which stands at 81% in Europe.

Given the uncertainty surrounding US financial assets and our partners' appetite for diversification, strengthening the international role of the euro may become a strategic imperative. Admittedly, this role was not stipulated in the objectives of the European treaties, and when the euro was created, the Eurosystem adopted a neutral stance on the international ambitions of the euro.[x] However, on the 20th anniversary of the euro, the ECB[xi] emphasised the shift from a "neither/nor" approach (i.e. neither hindering nor supporting) to a ‘happy coincidence’ between the Eurosystem's internal objectives and the external dimension of the euro. Naturally, the role of the dollar will remain important; the strengthening of the euro must therefore be a gradual and balanced process, based on the choices made by private players. But it also goes hand in hand with an internal opportunity: consolidating our common architecture – whether it be the Savings and Investments Union or offering safe euro-denominated assets.

II. Overcoming stupefaction to seize "Europe's moment"

I will now come on to a second misconception: that European economic sovereignty is an impossible goal. Admittedly, this objective – which has existed alongside monetary union from the outset and has gained traction over the past 15 years with plans for a Banking Union and a Capital Markets Union – is progressing too slowly. However, if there is one good thing about America's policy shift, it is at least a wake-up call for Europe. But we do have to admit, our collective response is still not up to the task. We have the ability to make this leap, provided we have the firm and lasting will to do so. The formation of the new German government coincides with this window of opportunity.

Setting a mobilising deadline for achieving economic and financial sovereignty

The Draghi[xii] and Letta[xiii] reports in 2024, followed by the European Commission's "Competitiveness Compass" and Savings and Investments Union of February and March 2025, respectively, are remarkably convergent in terms of the structural reforms needed, and these necessary actions do not involve any extra fiscal cost. As the Banque de France put it in its recent "Letter to the President of the French Republic" [xiv], we need a general mobilisation based around three imperatives – 3 'i's, or, if you prefer, size multiplied by muscle and by speed.

First we need to *integrate* the single market more. This means focusing on our size by removing internal barriers, especially in numerous sectors such as services and energy. Second we need to *invest* better, giving greater priority to the most promising disruptive innovations, especially those linked to artificial intelligence (AI). To do this, we need to develop Europe's financial muscle through a genuine Savings and Investments Union that channels more of our abundant private savings into European equity financing and venture capital. Finally, we need to *innovate* faster. Europe needs simplification: less bureaucracy, fewer procedures and shorter deadlines. But simplification does not mean deregulation. The European approach will remain firmly focused on its objectives, but more agile in its conception.

However, this economic and financial sovereignty can only be achieved if it meets one key condition: **that the political aims and expectations of the economic players are rapidly aligned**. To this end, I call for a ***mobilising deadline***, as Jacques Delors did in the past with 1 January 1993 for the single market, and 1 January 1999 for the single currency.[xv] It is up to the Commission to propose this deadline and the Council to approve it, but why not 1 January 2028? We need to give ourselves two to three years to emerge more powerful and sovereign from the policy turnaround initiated by the current US administration. Christine Lagarde has called for a “march towards European independence” in response to the illusory American “Liberation Day”.[xvi] The Commission should therefore aim to present all of its legislative proposals this year. It’s now or never: history will not wait.

Lastly, I would like to add an essential technological dimension to our monetary sovereignty. The digitalisation of the European economy[xvii] for day-to-day payments is increasing our reliance on non-European players, especially international networks[xviii] and big tech. Furthermore, the boom in stablecoins – most often backed by the dollar and strongly promoted by the US government – poses a serious risk of “privatisation” and “de-Europeanisation” of the currency. For all of these reasons, the Eurosystem is a fervent advocate of a digital euro – a banknote in the digital arena. The aim is not to replace banknotes and coins or existing banking solutions, but here too, an ostensibly technical project masks an essential political dimension.

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Faced with America’s policy shift, and as we commemorate the 80th anniversary of the end of the Second World War and the 75th anniversary of the Schuman Declaration,[xix] Robert Schuman's words resonate even more sharply today: “It is no longer a question of vain words, but of an act, of a bold act, of a constructive act.”[xx] Yes, we urgently need to shake off a certain economic nonchalance and overcome our stupefaction faced with the new US administration. We need a *general* mobilisation: the French and European response must be a collective one, with a fair sharing of the burden and a decisive pace of action. This can be

France and Europe’s moment if – and only if – we do this. Thank you for your attention.

[i] GDP PPP in current euro in 2024, source: AMECO/European Commission, October 2024.
[ii] Rolling annual flow in the fourth quarter of 2024. Banque de France calculations.
[iii] Villeroy de Galhau (F.) (2025), *Letter to the President of the French Republic: From stupefaction to a general mobilisation. How to respond to America's policy shift*, 9 April.
[iv] Villeroy de Galhau (F.) (2025), *Venturing into open waters to unlock Europe's innovative potential*, speech, Euronext Paris, 18 March.
[v] Fuest (C.), Gros (D.), Mengel (P.-L.), Presidente (G.) and Tirole (J.) (2024), *EU Innovation Policy – How to Escape the Middle Technology Trap*, European Policy Analysis Group, April.
[vi]The European Commission considers the EU to be the world's leading trading power based on the number of countries for which it is the main trading partner, its share of global trade in goods and services, and its direct investment flows. Source: European Commission (2025), The EU's position in world trade.
[vii] Villeroy de Galhau (F.) (2025), *"Markets and minds: upholding the transatlantic partnership"*, Atlantic Council speech, Washington, 23 April.
[viii]The federal funds rate was in a range of 4.25% to 4.5% on 14 May 2025.
[ix] UK base rate stood at 4.25% on 14 May 2025.
[x] Villeroy de Galhau (F.) (2023), *The euro as a complementary asset in a more multilateral system*, speech, Conference " The internationalization of the euro and the creation of the Union of Capital Markets in the EU", Paris, 16 June
[xi] European Central Bank (2019), *The international role of the euro, June 2019*, June, pp. 38-39; European Central Bank (2020), *2019 Annual Report*, May, p. 67.
[xii] Draghi (M.) (2024), *The future of European competitiveness*, September.
[xiii] Letta (E.) (2024), *Much more than a market*, April.
[xiv] Villeroy de Galhau (F.) (2025), *Letter to the President of the French Republic: From stupefaction to a general mobilisation. How to respond to America's policy shift*, 9 April.
[xv] Villeroy de Galhau (F.) (2025), *"Markets and minds: upholding the transatlantic partnership"*, speech, Atlantic Council, Washington, 23 April.
[xvi] Lagarde (C.) (2025), Interview France Inter radio, 31 March.
[xvii] In France, cash was used in 43% of POS payments in 2024, compared with 68% in 2016. See Banque de France (2025), French people still value cash, despite using it less and increasingly turning to cards and mobile payments | Banque de France, Banque de France Bulletin, 25 February.
[xviii] They represented 66% of euro area card payments in Q1 2024.
[xix] Schuman (R.) (1950), Declaration, 9 May.
[xx] Schuman (R.) (1950), Declaration, 9 May.